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## Russian Federation

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### Agriculture Development Program in 2010 and Priorities for 2011

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Agricultural Situation

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**Report Highlights:**

Russia met Agricultural Development Program 2008-2012's targets in 2008 and in 2009, but the drought caused a decrease in agricultural production and additional budget expenditures in 2010. The Ministry of Agriculture hopes that grain production will rebound to 85 MMT in 2011 and that the steady development of animal breeding will continue. The Ministry also began drafting the next 5 year's plan for 2013-2017.

## General Information:

At the end of 2010 Agricultural Minister Yelena Skrynnik updated the State Duma and the Government on the implementation of the “State Program of Development of Agriculture 2008-2012<sup>[i]</sup>”, and on the targets for 2011<sup>[ii]</sup>. The annual, 2009, progress report was prepared by the Ministry of Agriculture and approved by the Government of the Russian Federation on June 2010, before the drought effect on agriculture became evident. The 2009 annual report is on the MinAg’s web-site: [www.mcx.ru](http://www.mcx.ru). Below is a summary of most recent reports from Russia’s top officials, including the Prime Minister and the Minister of Agriculture on the implementation of the State Program in 2008-2009, on the status of agriculture in 2010, and on prospects for 2011.

### Results of implementation of the State Program in 2008-2009:

Despite the difficult economic environment and dry weather conditions in 2009, agricultural production increased by 1.2 percent, and became one of the few sectors that demonstrated positive growth in 2009. According to Agricultural Minister, this was made possible due to the unprecedented state budget support (about 190 billion rubles, or over \$6 billion) and the systematic, program-oriented approach to financing agriculture.

In 2008 and 2009 agricultural production was growing, and in two years exceeded program targets by 4.3 percentage points. The majority of the success was attributed to record production in 2008 including: the unprecedented growth of grain crop from 82 million metric tons (MMT) in 2007 to 108 MMT in 2008 and intensified meat and dairy production resulting from the aggressive influx of government funding. Since 2007 more than two thousand projects were implemented in meat and dairy farming. In two years, by the end of 2009, meat production increased by 6.6 percent, including poultry production which grew by 15 percent and the pork production increased by 8 percent. However, beef production decreased. Output of milk and dairy products increased by 0.7 percent. According to Minister Skrynnik, the development of the livestock industry was facilitated by effective measures of customs - tariff regulation, by meat import quotas as well as by special programs implemented by the Ministry, such as Poultry, Pork, Beef and Dairy Cattle, Primary Processing of Livestock, and Compound Feeds Production Programs.

Table 1 shows major targets of the National Program for Development of Agriculture and for Market Regulation 2008-2012, actual indexes of growth in 2008 and 2009, and Ministry of Agriculture’s forecasts for 2010 and 2011. The forecasts were made in May 2010, before the effect of drought became evident.

The table shows that investments in real assets and renovation of agricultural equipment were lagging behind the indexes determined in the 5-year’s program. Agricultural Ministry’s report envisages that investments in agriculture in 2010 and 2011 might again miss targets to low farmers’ returns.

Table 1. Major Economic Indexes of Agricultural Development Plan 2008-2012 (target indexes, actual growth, and forecasts for 2010 and 2011).

	2008		2009		2010		2011	
	Target	Actual	Target	Actual	Target	Forecast	Target	Forecast
Change in total agricultural output (in comparable prices) from previous year, %	3.8	10.8	3.9	1.2	4.1	2.7	4.1	2.8
Change in livestock production (in comparable prices) from previous year, %	4.8	3.0	5.1	4.1	5.1	3.5	5.1	3.6
Change in plant production (in comparable prices) from previous year, %	2.9	18.0	2.8	-1.4	3.1	1.9	3.1	2.1
Change in investments (physical volumes) in real assets in agriculture, %	15.0	-6.4	10.6	-24.2	10.2	-5.0	8.5	5.0
Share of Russian products in the total supply, %								
- meat and meat products (meat equivalent)	61.1	61.2	63.5	64.1	65.7	70.5	68.1	73.3
- milk and dairy products (milk equivalent)	78.3	77.8	79.2	78.4	79.9	78.1	80.4	79.0
Renovation of agricultural equipment in agricultural organizations <sup>1)</sup> (coefficient)								
- tractors	5.2	3.8	6.6	2.0	8.0	1.7	9.2	1.7
- grain harvesters	7.4	6.9	8.6	4.3	10.4	3.9	11.5	3.9
- fodder harvesters	11.8	7.1	12.8	3.5	12.4	2.9	12.0	2.6
<b>Notes:</b> <sup>1)</sup> private farms and individual households are not included								
<b>Source:</b> Ministry of Agriculture, National Report "On the implementation and the results of the National Program for Development of Agriculture and Markets Regulation for 2008-2012 in 2009", tables 1.2, 1.3, 7.1								

The debt exposure of producers was growing in 2008 and 2009. In 2008 Russian farmers borrowed 715 billion rubles (\$23.8 billion), including 230 billion rubles (\$7.7 billion) of middle- and long-term (up to 10 years) loans. Compared with the total agricultural output in 2008 (in current prices), borrowed money was approximately 28 percent of the total agricultural output. In 2009 Russian farmers increased borrowing by 9 percent to 776 billion rubles (\$25.9 billion), of which middle- and long-term loans were 270 billion rubles (\$9 billion). The borrowed money exceeded 30 percent of agricultural output in 2009. Farmers' indebtedness was stimulated by the increasing government interest rate subsidies. On the terms of interest rate subsidies farmers borrowed 412 billion rubles (\$13.7 billion) in 2009, a 10.5 percent increase from 2008 level, and 71 percent more than the Program's target for 2009.

The Ministry's report noted significant indebtedness as one of the major negative factors that might curb development of agriculture in 2010-2012. By the beginning of 2010 the overdue indebtedness of Russian farmers reached 29.5 billion rubles (\$1 billion), and was 6.6 billion rubles (\$220 million) more than in the beginning of 2009. Data on the restructured debts also indicates that the financial situation of Russian agriculture by the beginning of 2010 was far from stable: as of January 1, 2010 the total sum of restructured farmers debts was 85.6 billion rubles (\$2.9 billion), or 1.1 billion rubles (\$37 million) more than by beginning of 2009<sup>[iii]</sup>.

### Agricultural situation in 2010

Severe drought in 2010 in 43 provinces was the main factor determining the decline of agricultural development in 2010, and will result in substantial amendments to the State Program results.

Agricultural production declined by 10 percent on a year-to-year basis<sup>[iv]</sup>, instead of the planned 3 percent increase. Crops were lost on more than 13.3 million hectares, accounting for 30 percent of the area sown in these provinces (17 percent of the total sown area or 30 percent of the total grain sown area in the Russian Federation). Drought affected 25 thousand enterprises, mainly in the Volga and Central Federal Districts. According to the First Deputy Prime Minister Zubkov, the drought-caused losses exceeding 41 billion rubles (\$1.3 billion) in 2010.

Grain production decreased by 37 percent from 2009 to 60.8.2 MMT. However, the Agricultural Ministry estimated that including the carry-over stocks reported by Rosstat (Russian's State Statistical Service), Russia's total grain resources will be about 87 MMT in MY 2009/2010, while the domestic demand is estimated at 72-74 MMT.

Despite official reassurances regarding the stability of the domestic grain supply, grain prices continued to increase, and by January 11, 2011, milling wheat price (Class 4) in the domestic market reached 7,500 rubles per metric ton (\$250), and the fodder wheat price reached 7,035 rubles per metric ton (\$235). In the beginning of marketing year (July 1, 2010), wheat prices were 3,645 rubles (\$122) per metric tons and 3,295 rubles (\$110) per metric ton respectively.

Meat and dairy industries continued to grow, although at a slower rate due to drought and related feed shortage. During the first 11 months of 2010, production of livestock and poultry in live weight increased by 5.8 percent and amounted to 9.1 MMT. According to MinAg, the main growth was in production of poultry and pigs, while beef and dairy production were lagging behind. The declining trend in the cattle numbers has been observed over the past 10 years, and has not been compensated by increasing productivity. However, the share of specialized meat and milk breeds has been increasing. As for dairy, in the first half of 2010 production was increasing, then production dipped because of the abnormal drought. The total production for the first 10 months of 2010 decreased by 483,000 MT, or by 1.7 percent year-to-year. In November 2010 the Agricultural Minister expected that meat production in 2010 might reach 10.6 MMT (live weight) or 6.5 percent more than in 2009. Given the surge was related to the early slaughter by farmers fearing feed shortages, the pace is unlikely to continue. In November 2010 the Agricultural Minister already acknowledged that dairy production in 2010 will decrease by almost 2 percent from last year to 32 MMT, and the program targets will not be met.

The final analysis of the fulfillment of the 5-years' Plan of Agricultural Development in 2010 will be prepared by the Agricultural Ministry in May-June 2011.

### Government measures in 2010

In 2010 the Government hoped to continue the development of the livestock industry as the major priority. However, the resources were funneled into emergency rescue measures, such as support of farmers in the affected provinces, restoration of grain production in 2011, and creation of the long term-safety net for Russian farmers.

#### *Support of farmers in the drought affected provinces*

In order to minimize the effects of 2010 drought, the Government adopted a set of measures to support

farmers in the affected regions:

1. Provinces were given access to 25 billion rubles (\$0.8 billion) in loans. Over 15 billion rubles (\$500 million) have been transferred to provinces by December 2010, including direct transfers to agricultural enterprises for the purchase of feed, seed, fertilizer and fuel (12.8 billion rubles or \$ 400 million). The remaining 10 billion rubles (\$330 million) were transferred by the end of December 2010;
2. The federal budget allocated 10 billion rubles (\$330 million) of direct subsidies to drought-affected provinces to cover direct losses from the drought. The bulk of this money was sent to provinces by the end of 2010;
3. The Government decided to continue interest rate subsidies for extended short-term and middle-term (up to 3 years, so called “investment”) loans to enterprises;
4. The Ministry sped up the transfer of 2010 budget to provinces to facilitate the timely sowing of winter grains. Almost 87 percent of budget were transferred by the end of November 2010;
5. The Government established preferential tariffs for rail transportation of grain to the affected regions from the South (coefficient is 0.5) and from Siberia (coefficient is 0.3). According to experts, preferential tariffs might have reduced the cost of grain to the buyer by 300-500 rubles (\$10-\$17) per metric ton. In January 2011 the Russian Federal Service on Tariffs extended these tariffs until July 1, 2011 <sup>[v]</sup>;
6. Russia banned all grain and flour exports from August through December 2010, and later extended this ban, with exception of flour, to July 1, 2011.

#### *Restoration of grain production to 80-87 MMT in 2011*

The sowing of winter crops was completed by the end of November, and 15.5 million hectares were sown to winter crops this year (in 2009 - 18 million hectares). The Ministry of Agriculture forecasted the winter grain crop for 2011 at about 40 MMT. MinAg estimated that in order to restore grain production in 2011 to 80-85 MMT and replenish the carry-over stocks, Russian farmers shall increase spring sowing by at least 1.5 million hectares to 30 million hectares.

According to Agricultural Minister Yelena Skrynnik, the necessary funding for this spring sowing may amount to 223 billion rubles (\$7.4 billion), including 140-150 billion rubles (\$4.7 billion - \$5.0 billion) of commercial loans. Given the overall federal budget constraints, and the budget's social; support priorities in the election/pre-election year, agricultural sector will not be able to rely on a substantial budget increase. Administrative tools will be widely used in order to facilitate financing of agriculture. The ministry held several meetings with the banks, and the banks confirmed the lending of 140-150 billion rubles for spring sowing, and agreed to keep interest rates relatively low. According to Minister Skrynnik, the interest rate of Sberbank for farm loans is 9 percent and Rosselkhozbank also agreed to match that rate in 2011 <sup>[vi]</sup>.

Minister Skrynnik reported that the following measures are scheduled in order to conduct spring sowing in 2011:

1. An additional 1.2 billion rubles (\$40 million) will be allocated for fertilizer subsidies by the end of 2010 bringing the total to 5.9 billion rubles (\$197 million). In 2011, the funding will increase to 6.5 billion rubles (\$217 million);

2. Prices for potash fertilizer and plant protection products will remain at the level of 2010;
3. Discounted fuel and lubricant prices will be available for producers;
4. Seed subsidies will double to 1 billion rubles (\$33 million) from 500 million rubles (\$16 million) in 2010. Subsidies will also be allocated for planting perennial plantations and vineyards (400 million rubles, or \$13 million), to the delivery of seeds to the North (400 million rubles, or \$13 million), for production of flax and rapeseeds 240 million rubles (\$8 million) and 252 million rubles (\$8.4 million) respectively;
5. In January 2011 provinces will receive up to 30 percent of the annual volumes of state funds allocated for them from the federal budget in 2011;
6. The Ministry of Agriculture also hopes that the emergency budget outlays for drought-affected provinces and enterprises in 2010 will be partially used for the purchase of seeds, fuel and fertilizer and for improvement of spring sowing.

### *Continuous development of livestock industry*

Minister Skrynnik reported that the main current challenge in livestock breeding is to prepare livestock for winter. According to reports from the provinces, availability of roughage is 98 percent of domestic demand and availability of value-added feeds is 75 percent of needs. The state support of areas affected by drought, including budgetary credits, direct subsidies and the extension of credit, has played an important role in keeping livestock numbers from plummeting.

### *Strategic measures aimed at creating a safety net*

As for the longer-term strategy of creating a safety net for agriculture, the Ministry of Agriculture will be working on a strategy for providing agricultural insurance and land improvements.

1. The Ministry hopes to have new insurance system, primarily from catastrophic risks in agriculture, in place by the start of next year. Five billion rubles (\$167 million) is allocated to insurance in 2011. This is two times more than in 2010;
2. The Ministry has developed a Land Improvement Plan through 2020. The concept is aimed at reducing the risk of crop failure by improving soil fertility and crop yields in all agro-climatic zones of Russia, regardless of weather conditions.
3. The Russian government increased assets of the state companies Rosselkhozbank and Rosagroleasing by 1 billion rubles (\$33 million) each (Order of the Government of the Russian Federation No. 2243-p of December 10, 2010: <http://www.government.ru/gov/results/13462/>). The funds are primarily aimed at re-financing loans and subsidizing interest rates. ;
4. The Russian government added 3 billion rubles (\$100 million) to the assets of the United Grain Company for creation of agricultural infrastructure. The first 1 billion rubles (\$33 million) were added by the Order of the Government No. 2243-p of December 10, 2010. Another 2 billion rubles' (\$66 million) addition was made by the Order of the Government of December 17, 2010: <http://www.oaozk.com/news/2010-12-27.phtml>

### Conclusion

According to Minister Skrynnik, the economic situation for agriculture remains challenging, but generally stable. The Ministry will ensure the effective implementation of spring sowing and will

maintain the positive momentum in livestock production. It will also help stabilize prices in the food market. However, it has already become evident that the 2010 targets were not met, and that the Ministry will need to significantly correct agricultural forecasts for 2011. Meantime, the Ministry of Agriculture will be working on the Program for Development of Agriculture in 2013- 2017. It is the Ministry's intention to continue to support all of the major agricultural industries. It also hopes to introduce new programs that will include the development of food processing industry, infrastructure, and logistics.

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<sup>[i]</sup> More information on the targets and parameters of the Government Program of Development of Agriculture, Regulation of Agricultural Commodity Markets and Rural Development for the Period 2008-2012 see GAIN Report RS7051\_ Government Program for Agriculture and for Market regulation 2008-2012.

<sup>[ii]</sup> Summary of Agricultural Minister's presentation in Russian is on the site of the Russian Ministry of Agriculture:

<http://www.mcx.ru/news/news/show/4275.195.htm>

<sup>[iii]</sup> Source: MinAg's National Report "On the results of implementation of agriculture development program 2008-2012 in 2009, section 5.2, tables 5.1 and 5.2.

<sup>[iv]</sup> Prime Minister Putin answers questions of the public on December 16, 2010:

<http://www.agronews.ru/NewsP.php?NIId=63504>

<sup>[v]</sup> Order of the Federal Service on Tariffs No. 495 of December 29, 2010 (Rossiyskaya Gazeta, January 18, 2010)

<sup>[vi]</sup> Minister Skrynnik's presentation at the Agrobusiness Club meeting on December 15, 2010.